84th Congress 2d Session } HOUSE OF REPRESENTATIVES { Report No. 2418

AMENDING THE RAILROAD RETIREMENT ACT OF 1937 TO PROVIDE INCREASES IN BENEFITS

June 25, 1956.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. Harris, from the Committee on Interstate and Foreign Commerce, submitted the following

REPORT

[To accompany H. R. 9065]

The Committee on Interstate and Foreign Commerce, to whom was referred the bill (H. R. 9065) to amend the Railroad Retirement Act of 1937 to provide increases in benefits, and for other purposes, having considered the same, report favorably thereon with amendments and recommend that the bill as amended do pass.

The amendments are as follows:

Page 3, line 10, strike out "and by" and insert in lieu thereof "and such sections 3202 (a) and 3221 are each amended by".

Page 3, strike out section 5, which appears in lines 18 to 25.

Page 4, line 1, strike out "6" and insert "5".

Page 4, strike out the sentence which begins in line 15 and ends on line 19.

The committee amendments are technical corrections except for the amendment on page 3 which strikes out section 5 of the bill. Section 5 provided for the exclusion of an employee's contributions under the Railroad Retirement Tax Act from gross income for Federal income tax purposes. The committee made this amendment because the Committee on Ways and Means has indicated that section 5 raised questions of general tax policy which it should consider. The Committee on Ways and Means has legislative jurisdiction over revenue measures generally.

Provisions of the Reported Bill

The reported bill would amend the Railroad Retirement Act of 1937 and the Railroad Retirement Tax Act in the following respects:

AMENDMENTS TO THE RAILROAD RETIREMENT ACT

With certain exceptions noted below, the bill would generally increase the benefits payable under the Railroad Retirement Act by 15 percent, and would increase the residual lump-sum payment under section 5 (f) (2) of the act by 1 percent of taxable compensation paid after June 30, 1956.

Exceptions to 15-Percent Increase in Benefits Provided in Reported Bill

Retirement annuities

1. When a retired employee's annuity is computed under the overall social security minimum specified in the proviso of section 3 (e) of the Railroad Retirement Act (enacted by Public Law 234, 82d Cong., 1st sess., approved October 30, 1951), there would be either an increase of less than 15 percent, or no increase, in benefits, because the annuity so computed has already been increased to an amount above that which would be payable under the Railroad Retirement Act formulas, and has already received the benefit of the increases provided in the 1952 and 1954 amendments to the Social Security Act.[1] For example, if a beneficiary under the Railroad Retirement Act were now entitled to $30 per month under the Railroad Retirement Act formula, but under the Social Security Act formula he would have been entitled to $60 a month, he now receives the $60. The 15-percent increase provided in this bill would raise his annuity, calculated under the Railroad Retirement Act formula, to $34.50 per month. However, he would still receive the benefit of the minimum guaranty, namely, $60. On the other hand, if he were entitled to $80 under the Railroad Retirement Act formula, and by the application of the minimum guaranty now receives $85, he would receive an increase under the provisions of this bill. This is so because the 15-percent increase in benefits which the reported bill provides would entitle him to $92 per month. In simple terms, where the 15 percent increase provides a beneficiary with a benefit over the social security minimum, he would receive the advantage of the increase. In cases where the 15 percent increase would still leave the person's benefit below the minimum, he would not get an increase under this bill.

In the case of a retired employee who has a "current connection with the railroad industry" and whose annuity, computed under the

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[1] The provisions of section 3 (e) of the Railroad Retirement Act are as follows:

"(e) In the case of an individual having a current connection with the railroad industry, the minimum annuity payable shall, before any reduction pursuant to section (2) (a) (3) or the last paragraph of section 3 (b), be whichever of the following is the least: (1) $4.14 multiplied by the number of his years of service; or (2) $69; or (3) his monthly compensation: *Provided, however*, That if for any entire month in which an annuity accrues and is payable under this Act the annuity to which an employee is entitled under this Act (or would have been entitled except for a reduction pursuant to section 2 (a) 3 or a joint and survivor election), together with his or her spouse's annuity, if any, or the total of survivor annuities under this Act deriving from the same employee, is less than the amount, or the additional amount, which would have been payable to all persons for such month under the Social Security Act (deeming completely and partially insured individuals to be fully and currently insured, respectively, individuals entitled to insurance annuities under subsections (a) and (d) of section 5 to have attained age sixty-five, and individuals entitled to insurance annuities under subsection (c) of section 5 on the basis of disability to be less than eighteen years of age, and disregarding any possible deductions under subsections (f) and (g) (2) of section 203 of the Social Security Act) if such employee's service as an employee after December 31, 1936, were included in the term 'employment' as defined in that Act and quarters of coverage were determined in accordance with section 5 (l) (4) of this Act, such annuity or annuities, shall be increased proportionately to a total of such amount or such additional amount."

The proviso in section 3 (e) of the act is often referred to as the overall social security minimum guaranty provision. Simply stated, it means that the total of monthly benefits payable under the Railroad Retirement Act to an individual and his family, together with the benefits (if any) payable under the Social Security Act, may in no case be less than the benefits that would be payable under the latter act if railroad employment were credited as social security employment.

minimum provision preceding the proviso in section 3 (e) of the act, is an amount equal to the employee's monthly compensation, such annuity would not be increased at all because it would be contrary to sound policy to pay a retirement benefit in an amount greater than the average monthly wage on which the annuity is based.

Spouse's annuities

2. This bill does not change the method of computing the spouse's annuity. The present law provides that the spouse shall receive an amount equal to half of the retired employee's monthly benefit, with the maximum allowable equal to the maximum spouse's benefit payable under the Social Security Act, which is presently $54.30. Hence, if a spouse is receiving, under the Railroad Retirement Act, the maximum amount of $54.30, that annuity, under the provisions of this bill, would not be increased at all. If such annuity is more than $47 and under $54.30, the increase provided for by this bill would be less than 15 percent, since it is not proposed to raise the spouse's maximum above the social security maximum of $54.30.

Last year the maximum spouse's annuity payable under the Railroad Retirement Act was $40. This maximum was increased to $54.30 by Public Law 383, 84th Congress, 1st session, approved August 12, 1955. That increase, of course, means that every spouse's annuity will be at least 15 percent greater (either through the increase of last year, or the proposed increase in the bill) than the amount provided by the 1951 amendments to the act (Public Law 234, supra).

Survivor annuities

3. The basic amount, which is the unit for computing survivor insurance benefits under the regular formulas, would be increased by exactly 15 percent. A similar 15-percent increase would be applicable to the Railroad Retirement Act maximum and minimum amounts related to survivor insurance benefits. However, the amount of the social security minimum guarantee which applies to such survivor benefits would remain unchanged. The effect of this limitation would be that survivor insurance benefits computed in accordance with the social security rather than railroad retirement formulas would either be not increased at all or would be increased by less than 15 percent. At present, the great majority of monthly survivor insurance benefits are computed in accordance with the social security minimum formulas so that large numbers of such benefits would not be increased as a result of the enactment of this bill. In cases where a widow's or parent's annuity is payable under the Railroad Retirement Act simultaneously with an old-age social-security benefit received by the same individual, the 15-percent increase would apply in practically all cases, since the social-security minimum seldom applies in dual benefit cases.

The insurance lump sum under section 5 (f) (1) of the Act would be increased in all cases by exactly 15 percent since the social security minimum guarantee is not applicable to this type of benefit.

Estimated Number of Beneficiaries Affected by Proposed 15-Percent Increase in Benefits

Table 1 shows the estimated number of monthly beneficiaries of each class who would be affected, or not be affected, by the 15-percent increase proposed in the reported bill.

Employee annuities

Of the 320,000 employee annuities, it is estimated that 285,000 would receive the full 15-percent increase and 15,000 an increase of less than 15 percent, while 20,000 would receive no increase. The 15,000 which would be increased by less than 15 percent consist of 7,000 which are now social security minimum guarantee cases and to which the new regular retirement benefit formula would apply, and 8,000 other cases now minimums where the amount of increase would be limited to the amount of the average monthly compensation. To illustrate: Consider the case where the annuity under the regular railroad retirement benefit formula is $80, but under the gurantee provision it comes to $85 per month. The Board currently pays the $85. Under the new regular railroad retirement benefit formula the $80 figure would be raised to $92. Hence, the actual annuity payable would be increased from $85 to $92, an increase of about 8 percent. Consider further the case where the Board is paying a $69 minimum annuity to an employee whose average monthly compensation is $76. The increase in this case would be from $69 to $76, or about 10 percent.

The 20,000 annuities which would not be increased include 15,000 minimum guarantee cases and 5,000 cases in which the annuity is already equal to the average monthly compensation. The overall percent increase for the 320,000 annuities is estimated at 14.2 percent, while for the 300,000 annuities affected, it would be 14.9 percent.

Pensioners

The estimated 2,500 pensioners on the rolls July 1, 1956, would receive a flat 15-percent increase in their pensions.

TABLE 1.—*Estimated numbers of monthly beneficiaries of each type on the Railroad Retirement Board's current payment rolls July 1, 1956, who would be affected or not affected by proposed 15-percent increase in railroad retirement benefit formulas*

Type of benefit	On current payment rolls			Estimated number increased			Estimated number not increased			
	Total	Benefit computed under—		Total	By 15 percent	By less than 15 percent	Total	Monthly compensation, minimum cases	Social Security formula cases	Others
		Railroad formula	Social Security formula							
Total	654,500	473,250	181,250	424,900	380,250	44,650	229,600	7,000	162,600	60,000
Retirement	320,000	298,000	22,000	300,000	285,000	[1] 15,000	20,000	5,000	15,000	------
Pensioners	2,500	2,500	-------	2,500	2,500	-------	-------	-------	-------	------
Spouses	115,000	108,000	7,000	48,000	31,000	[2] 17,000	67,000	2,000	5,000	[3] 60,000
Aged widows	155,000	57,000	98,000	63,000	54,000	[4] 9,000	92,000	-------	92,000	------
Widowed mothers	12,000	700	11,300	1,300	700	[5] 600	10,700	-------	10,700	------
Children	45,000	3,000	42,000	6,000	3,000	[5] 3,000	39,000	-------	39,000	------
Parents	1,000	50	950	100	50	[5] 50	900	-------	900	------
Survivor (option)	4,000	4,000	-------	4,000	4,000	-------	-------	-------	-------	------

[1] Includes 7,000 guarantee cases changed to railroad formula, 8,000 minimums ($69, 4.14 times years of service guarantee) changed to monthly compensation minimums.
[2] Includes 15,000 unreduced spouse benefits over $47.22 but less than $54.30 before increase, and 2,000 guarantee cases changed to the railroad formula.
[3] Normal spouse annuity already equal to $54.30.
[4] Includes 6,000 guarantee cases and 3,000 spouse minimums changed to the regular railroad formula.
[5] Guarantee cases changes to the railroad formula.

NOTE.—No provision made for application of the disability freeze under title II of the Social Security Act.

Source: Railroad Retirement Board.

Spouses

The estimated 115,000 spouses on the rolls July 1, 1956, include 48,000 to be increased—31,000 by 15 percent and 17,000 by less than 15 percent—and 67,000 not to be increased. The great majority of the 67,000 not to be increased are wives who are already receiving the maximum of $54.30 per month.

Survivor annuities

There will be approximately 213,000 individual survivor insurance beneficiaries on the rolls on July 1, 1956, of which 152,000 are paid under the guarantee provision, 58,000 receive benefits based on the regular formulas, and 3,000 are cases in which a widow is receiving the same amount as she received as a wife.

It is estimated that some 58,000 survivors would receive the full 15-percent increase under the railroad survivor benefit formula. About 13,000 survivors would receive less than the 15-percent increase, while the remaining 142,000 would receive no increase. An example of a case in which a less than 15-percent increase would result is that of an aged widow who is receiving $45 per month under the guarantee provision. Assume a basic amount under the present law of $40, which will be increased to $46 under the proposed amendments. Her annuity will be increased from $45 to $46, or a little more than 2 percent. If in this case the widow is receiving more than $46 under the guaranty provision, her benefit will remain the same.

Average Increase in Benefits

Table 2 shows the average monthly benefits before and after the proposed 15 percent increase, by classes of beneficiaries.

Sixty-five percent of the 654,500 beneficiaries now on the retirement rolls would receive increases under this legislation. Of these, ninety-four percent of the retired employees will get an increase averaging $15.50 per month. Pensioners would receive an average increase of $11.70. Forty-two percent of the spouses would receive an increase, averaging $4.50. Forty-one percent of the aged widows would receive an increase of $5.50, on the average.

TABLE 2.—*Estimated numbers of monthly beneficiaries of each type on the Railroad Retirement Board's current payment rolls July 1, 1956: Number and percent affected and average monthly benefits before and after proposed 15 percent increase in railroad retirement benefit formulas*

Type of benefit	Total on current payment rolls				Total on rolls receiving increase				
	Number	Average benefit		Percent change	Number	Percent of total	Average benefit		Percent change
		Before increase	After increase				Before increase	After increase	
Total	654,500				424,900	65			
Retirement	320,000	$102.00	$116.50	14.2	300,000	94	$104.30	$119.80	14.9
Pensioners	2,500	78.00	89.70	15.0	2,500	100	78.00	89.70	15.0
Spouses	115,000	46.80	48.70	4.1	48,000	42	39.70	44.20	11.3
Aged widows	155,000	50.80	53.00	4.3	63,000	41	40.80	46.30	13.5
Other survivor insurance	58,000	46.00	46.50	1.1	7,400	13	35.50	38.70	9.0
Survivor (option)	4,000	46.00	52.90	15.0	4,000	100	46.00	52.90	15.0

Source: Railroad Retirement Board.

The individuals whose benefits would not be increased comprise predominantly those who under the social security minimum are already receiving benefits at least 15 percent in excess of the benefits that would be payable under the Railroad Retirement Act formula and spouses who are already receiving the maximum annuity, which was increased by approximately 35 percent under amendments adopted last year.

AMENDMENTS TO THE RAILROAD RETIREMENT TAX ACT

Benefits payable under the Railroad Retirement Act are presently financed by a payroll tax of 6¼ percent on railroad employees and an equal tax on their employers, payable on each employee's compensation up to $350 a month, and by a payroll tax of 12½ percent on the compensation of each employee representative up to $350 a month.

The reported bill would increase the tax rates on railroad employees and their employers from 6¼ percent to 7¼ percent on each employee's compensation up to $350 a month, and from 12½ percent to 14½ percent on the compensation on every employee representative up to $350 a month.

SPONSORS OF BILL

One hundred and five Members of the House of Representatives have introduced bills identical to H. R. 9065, which was introduced by the chairman of the Transportation and Communications Subcommittee of your committee, Mr. Harris of Arkansas. These bills are: H. R. 9066, by Mr. Dolliver of Iowa; H. R. 9068, by Mr. Wolverton of New Jersey; H. R. 9145, by Mr. Klein of New York; H. R. 9174, by Mr. Dollinger of New York; H. R. 9175, by Mr. Granahan of Pennsylvania; H. R. 9187, by Mr. Moulder of Missouri; H. R. 9190, by Mr. Staggers of West Virginia; H. R. 9204, by Mr. Clark of Pennsylvania; H. R. 9213, by Mr. Mack of Illinois; H. R. 9231, by Mr. Taylor of New York; H. R. 9232, by Mr. Withrow of Wisconsin; H. R. 9239, by Mr. Ashley of Ohio; H. R. 9245, by Mr. Sheppard of California; H. R. 9256, by Mr. Burdick of North Dakota; H. R. 9274, by Mr. Metcalf of Montana; H. R. 9276, by Mr. Madden of Indiana; H. R. 9281, by Mr. Roosevelt of California; H. R. 9317, by Mr. Beamer of Indiana; H. R. 9326, by Mr. Byrd of West Virginia; H. R. 9327, by Mr. Carrigg of Pennsylvania; H. R. 9334, by Mr. George of Kansas; H. R. 9345, by Mr. Miller of California; H. R. 9355, by Mr. Rhodes of Pennsylvania; H. R. 9404, by Mr. Murray of Illinois; H. R. 9408, by Mr. Rogers of Texas; H. R. 9450, by Mr. Hale of Maine; H. R. 9456, by Mr. Perkins of Kentucky; H. R. 9501, by Mr. Bennett of Michigan; H. R. 9507, by Mr. Hayworth of Michigan; H. R. 9538, by Mr. Abernethy of Mississippi; H. R. 9541, by Mr. Burnside of West Virginia; H. R. 9542, by Mr. Chenoweth of Colorado; H. R. 9564, by Mr. Polk of Ohio; H. R. 9583, by Mr. Addonizio of New Jersey; H. R. 9587, by Mr. Baker of Tennessee; H. R. 9596, by Mr. Flynt of Georgia; H. R. 9597, by Mr. Friedel of Maryland; H. R. 9598, by Mrs. Green of Oregon; H. R. 9599, by Mrs. Griffiths of Michigan; H. R. 9602, by Mr. Herlong of Florida; H. R. 9611, by Mr. O'Konski of Wisconsin; H. R. 9616, by Mr. Reuss of Wisconsin; H. R. 9621, by Mr. Shelley of California; H. R. 9623, by Mr. Siler of Kentucky; H. R. 9624, by Mr. Smith of Mississippi; H. R. 9625, by Mrs. Sullivan of Missouri; H. R. 9627, by Mr. Williams of New

Jersey; H. R. 9628, by Mr. Zablocki of Wisconsin; H. R. 9645, by Mr. Bailey of West Virginia; H. R. 9655, by Mr. Kelley of Pennsylvania; H. R. 9656, by Mr. Mollohan of West Virginia; H. R. 9657, by Mr. O'Hara of Minnesota; H. R. 9659, by Mr. Rodino of New Jersey; H. R. 9662, by Mr. Scott of Pennsylvania; H. R. 9663, by Mr. Thompson of New Jersey; H. R. 9666, by Mr. Winstead of Mississippi; H. R. 9682, by Mr. Colmer of Mississippi; H. R. 9685, by Mr. Fulton of Pennsylvania; H. R. 9686, by Mr. Garmatz of Maryland; H. R. 9694, by Mr. Gregory of Kentucky; H. R. 9697, by Mr. Macdonald of Massachusetts; H. R. 9698, by Mr. Natcher of Kentucky; H. R. 9702, by Mr. Spence of Kentucky; H. R. 9724, by Mr. Matthews of Florida; H. R. 9727, by Mr. Sisk of California; H. R. 9730, by Mr. Whitten of Mississippi; H. R. 9731, by Mr. Tumulty of New Jersey; H. R. 9763, by Mr. Chelf of Kentucky; H. R. 9783, by Mr. Williams of Mississippi; H. R. 9812, by Mr. Hays of Ohio; H. R. 9826, by Mr. Widnall of New Jersey; H. R. 9839, by Mr. Denton of Indiana; H. R. 9849, by Mr. Rees of Kansas; H. R. 9872, by Mr. Hyde of Maryland; H. R. 9908, by Mr. Huddleston of Alabama; H. R. 9914, by Mr. Morrison of Louisiana; H. R. 10002, by Mr. Roberts of Alabama; H. R. 10040, by Mr. Powell of New York; H. R. 10056, by Mr. Anfuso of New York; H. R. 10058, by Mr. Celler of New York; H. R. 10062, by Mr. Elliott of Alabama; H. R. 10067, by Mr. Gross of Iowa; H. R. 10102, by Mr. Davidson of New York; H. R. 10110, by Mr. Miller of Maryland; H. R. 10116, by Mr. Sieminski of New Jersey; H. R. 10128, by Mrs. Knutson of Minnesota; H. R. 10132, by Mr. O'Hara of Illinois; H. R. 10152, by Mr. Multer of New York; H. R. 10164, by Mr. Fallon of Maryland; H. R. 10208, by Mr. H. Carl Andersen of Minnesota; H. R. 10211, by Mr. Byrd of West Virginia; H. R. 10262, by Mr. Brooks of Louisiana; H. R. 10276, by Mr. Vanik of Ohio; H. R. 10306, by Mrs. Kee of West Virginia; H. R. 10345, by Mr. Merrow of New Hampshire; H. R. 10544, by Mr. Steed of Oklahoma; H. R. 10627, by Mr. O'Brien of New York; H. R. 10729, by Mr. Fogarty of Rhode Island; H. R. 10806, by Mr. Lane of Massachusetts; H. R. 10809, by Mr. O'Neill of Massachusetts; H. R. 10844, by Mr. Wier of Minnesota; H. R. 10950, by Mr. Donohue of Massachusetts; H. R. 10997, by Mr. Green of Pennsylvania; H. R. 11087, by Mr. Smith of Wisconsin; and H. R. 11244, by Mr. Dodd of Connecticut.[2]

The bill H. R. 9065, as originally introduced, is supported by the Railway Labor Executives' Association which consists of the chief executives of all but one of the standard railway labor organizations, namely: American Train Dispatchers' Association; Brotherhood of Locomotive Firemen and Enginemen; Brotherhood of Maintenance of Way Employes; Brotherhood Railway Carmen of America; Brotherhood of Railroad Signalmen of America; Brotherhood of Railway and Steamship Clerks, Freight Handlers, Express and Station Employes; Brotherhood of Railroad Trainmen; Brotherhood of Sleeping Car Porters; Hotel and Restaurant Employees and Bartenders International Union; International Association of Machinists; International Brotherhood of Boilermakers, Iron Ship Builders, Blacksmiths, Forgers and Helpers; International Brotherhood of Electrical Workers; International Brotherhood of Firemen and Oilers; Inter-

[2] The committee notes that the benefit and taxing provisions of the reported bill are contained also in Senate bills sponsored by 32 Senators (S. 3616 and S. 3654).

national Organization Masters, Mates and Pilots of America; National Marine Engineers' Beneficial Association; Order of Railway Conductors and Brakemen; The Order of Railroad Telegraphers; Railway Employes' Department, AFL–CIO; Railroad Yardmasters of America; Sheet Metal Workers' International Association; and Switchmen's Union of North America. The one standard railway labor organization not now affiliated with the Railway Labor Executives' Association, the Brotherhood of Locomotive Engineers, joins with the association in supporting the bill as introduced.

Need for Legislation

When the formula for computing retirement annuities was adopted in 1937, such annuities bore a reasonable relationship to current wages and to the cost of living. Since then prices have skyrocketed, and wages have not been far behind. The only increases in railroad employee retirement benefits were one of 20 percent, provided by Public Law 744, 80th Congress, in 1948, and another of 15 percent provided by Public Law 234, 82d Congress, in 1951. Even at those times it was recognized that the increases in retirement benefits were not adequate. Similarly, the formula for computing benefits for for survivors of deceased railroad employees was established before the beginning of the present inflationary period. Although these benefits were set up by the amendments of July 1946, the formulas were established in 1944, when the bill was first introduced in Congress. Survivor benefits were increased by 33⅓ percent by the 1951 amendments to the Railroad Retirement Act (Public Law 234, supra), and have not been increased since, except insofar as the application of the overall social-security minimum provided higher benefits. That is the picture we have at this time. In both cases, it has meant extreme hardship for the hundreds of thousands of persons who depend on these benefits for sustenance, and even survival. The standard railway labor organizations and many Members of Congress have been seriously concerned with the inadequacy of these benefits.

The greatest sufferers from the present high cost of living are those people who are trying to exist on a fixed income, such as pensions and annuities. They are trying to get along on a fixed number of dollars each month, and these dollars are buying less. The end result is that these people are driven to accepting greatly lowered living standards. There is little need to dwell further on the need for the increased benefits provided for by the reported bill, H. R. 9065.

There was general agreement until recently that the railroad retirement system was virtually without peer among plans of its kind. However, with the passage of the 1950 and later amendments to the Social Security Act, and the gains made in the past several years by employees in many industries through the adoption of private supplemental pension plans, the railroad retirement system has fallen behind. Recognizing this problem, many Members of Congress have introduced bills proposing to improve the benefits under the Railroad Retirement Act, and this committee has held hearings on these bills and considered them very carefully.

In the consideration of all these bills, however, the committee has placed great emphasis on the effect of the proposed amendments on the financial soundness of the railroad retirement account. The committee is unanimously of the opinion that, regardless of the desirability of certain proposals for the liberalization of benefits under the Railroad Retirement Act, no amendments to the law should be made which would jeopardize the financial soundness of the railroad retirement system. The principle is accepted by all the standard railway labor organizations as well as railroad management.

This committee has every desire to be helpful to retired railroad workers and their dependents. We are also mindful of our grave responsibility toward the currently active railroad workers and those who will follow and who will retire in the future. We must make certain that when they retire from the railroad industry, the reserves in the railroad retirement account plus the income into the system will be adequate to pay the benefits due them.

While numerous bills to amend the Railroad Retirement Act have been referred to the committee, H. R. 9065 and the other 105 bills identical to it are the only bills which provide for the financing of the benefits proposed therein. Under these circumstances, the committee concluded that the bill H. R. 9065 as amended and reported herewith is the best bill that can be acted upon at the present time. The committee feels that the increase proposed in the reported bill is very modest and should be granted. The committee regrets that the present financial condition of the railroad retirement system does not permit an increase in benefits by a greater amount.

Cost of Benefits Provided For by Bill

The Chief Actuary of the Railroad Retirement Board estimated that the proposed increase in benefits provided in the reported bill would cost 2.30 percent of taxable payroll. Since the reported bill would provide financing to the extent of only 2 percent of taxable payroll, the reported bill would create an apparent deficit of 0.3 percent of taxable payroll in addition to the present estimated deficit hereinafter discussed.

The actuary's estimated cost of 2.30 percent of taxable payroll was broken down as follows:

Item	*Additional cost (percent of payroll)*
Employee annuities and pensions	1.65
Spouses' annuities	.06
Aged widows' annuities	.24
Other monthly survivor benefits	.01
Insurance lump sums	.03
Increase in residual benefit formula	.04
Allowance for accelerated retirement	.33
Savings on residual payments	−.06
Total	2.30

The cost item of 0.33 percent of payroll as "allowance for accelerated retirement," was stated to be "a round figure based on 'judgment' as to what effect the increase in benefits might be." [3] This "judgment," however, was challenged by supporters of the bill as unrealistic because the average annuity at the present time is about $105 a month, the

[3] See report of Chairman Kelly of the Railroad Retirement Board on H. R. 9065, dated February 28, 1956.

average increase in annuity after the enactment of the bill would be about $15, the average monthly wage in the railroad industry is more than $300; and the cost item of 0.33 percent assumes that by increasing the annuity from about $105 to about $120 (on the average) the railroad worker who is able to continue working would be induced to retire and give up income of more than $300 a month substantially earlier than he otherwise would. In this connection it was further pointed out that railroad wages were increased approximately $25 per month last year, thus creating a recent countervailing influence against any inducement toward accelerated retirement that a $15 increase in annuities might otherwise be thought to have. The committee is inclined to believe that, under these circumstances, the 0.33 percent item included in the cost estimates for supposed accelerated retirement should be eliminated and a total cost estimate of 1.97 percent used. On this basis the cost of increased benefits provided for by the bill would be slightly less than the additional revenue which this bill would provide for the support of the railroad retirement system.

The sixth actuarial valuation of the railroad retirement system estimated the total cost of the benefits under the system at 14.13 percent of taxable payroll. Since the tax rates on employers and employees total only 12½ percent of such payroll, there is an estimated deficit on a level cost basis of 1.63 percent of payroll, or about $86 million a year. It appears, however, that the bill would not increase that deficit; that the benefits proposed in the bill would be paid for in full by the added taxes provided by the bill; and that, consequently, the estimated deficit would have to be considered without regard to this bill. A review of the actuarial estimates of the railroad retirement system made in the past shows that these estimates were overly conservative; much higher costs were predicted than actually occurred. There is ample time to watch and see if the presently indicated deficit is as high as it is now claimed to be. For the time being, however, the committee believes that the apparent present deficit, in the light of past experiences, is not such as to cause serious alarm. In any event, since the new benefits proposed in the bill would be amply financed by the bill itself, there is no occasion for making the present apparent deficit an issue in connection with this bill.

The railroads' objection to the increase in benefits proposed by the bill is based chiefly on the proposed increase in tax rates. In view of the fact that there is an urgent need for increasing benefits and that the additional 1 percent of tax on the carriers would be substantially offset by income-tax savings under the 52-percent corporation income tax, thus resulting generally in an effective tax rate increase for the carriers of only 0.48 of 1 percent, the committee does not feel that the much-needed increase in benefits should be denied on this account.

Reason for Committee Amendment Striking Section 5 of Bill

Your committee considered all three proposals in the bill H. R. 9065 as originally introduced, namely: (1) To increase benefits by, generally, 15 percent; (2) to increase tax rates on taxable compensation by 1 percent on employees and their employers and by 2 percent on employee representatives; and (3) to afford some relief to railroad employees and employee representatives from the very high retirement taxes by excluding the amount of such taxes from gross income, and from wages, for Federal income-tax purposes. In view of the interest expressed by the Committee on Ways and Means with regard to the third proposal above mentioned, your committee is limiting its recommendations to the first 2 of the 3 proposals in the original bill, and recommends, accordingly, that benefits and taxes be increased as recommended in the reported bill.

The testimony of representatives of the railway labor organizations supporting the bill before the committee indicates that they regard all three portions of the bill as inseparable parts of a unified and integral program and that they would not favor the enactment of the bill with the amendments recommended by the committee. Their position is that they cannot recommend the enactment of increased benefits without the enactment of provisions for financing such benefits, and they cannot recommend an increase in the employee retirement tax without at the same time providing a degree of offsetting relief through the exclusion of employee retirement taxes from gross income for income-tax purposes.

They point out that railroad employees are already paying more than 3 times the level of taxes paid by employees under the social-security system. Although railroad retirement benefits are also at a generally higher level than social-security benefits, the labor organizations say that this is not the whole story. They point to the fact that very generally, in other major industries, supplemental pension systems have been established which in many instances produce, in combination with social-security benefits, an overall level of benefits equal to or in excess of the railroad retirement system level. Because of the current rate of corporate income taxes and the opportunities for tax savings created thereby through employer contributions to supplemental pension systems, such systems have been very widely established on the basis of the employer paying the entire cost, and the tendency toward setting up plans on that basis or converting existing contributory plans to that basis is growing. The tax savings realized by the employers, of course, represent revenue losses to the Government. The result therefore, it is claimed, is that large numbers of employees in other industries are being afforded retirement protection equal to or better than that provided to railroad employees at a cost to the employees of less than one-third the cost to railroad employees for their protection, with the Government in effect contributing 52 percent of the cost of the benefits supplementing social-security benefits.

On these grounds the railway labor organizations say that the tax relief proposed in section 5 of the bill as introduced is modest compared with the tax advantages already being afforded very generally to employees in other major industries. For the same reasons they say that any proposal to extend like treatment to other groups of employees would have to be considered on its own merits and the enactment of section 5 would not constitute a precedent requiring such extension. They feel that the Treasury's estimate of direct revenue losses under section 5 are excessive since such estimates apparently assume that all railroad employees would have a tax saving whereas in fact hundreds of thousands of railroad employees are not earning sufficient income to incur income tax liability at the present time. In any event, they say that the revenue losses under section 5 would be insignificant compared with total revenues, and that serious revenue losses could be envisaged only on the unwarranted assumption that the enactment of section 5 would constitute a precedent requiring the extension of the same treatment to large numbers of other employees.

The foregoing summary of the justification advanced by the proponents of the bill as introduced for the inclusion of section 5 therein is recorded for the information of the Members of the House. The action of the committee in reporting the bill with section 5 stricken from the bill implies neither agreement nor disagreement with these views but merely results from the fact that this committee does not have legislative jurisdiction over this subject, and also because such legislation is pending before the Committee on Ways and Means.

Reports of Executive Departments and Agencies

Reports on H. R. 9065 were received from the Railroad Retirement Board, the Secretary of the Treasury, the Department of Health, Education, and Welfare, and the Bureau of the Budget. These reports are shown in the appendix to this report.

Section-by-Section Explanation of the Committee Bill

Section 1 (a) of the reported bill amends section 3 (a) of the Railroad Retirement Act of 1937 by changing the formula for computing railroad retirement annuities. The effect of this is to provide an increase in retirement annuities by slightly more than 15 percent. (A maximum spouse's annuity of $54.30 would not be increased at all, and a spouse's annuity in the amount of $47 or more but less than $54.30 would be increased by less than 15 percent.)

Section 1 (b) of the reported bill amends that portion of section 3 (e) of the Railroad Retirement Act of 1937 which precedes the proviso. The effect of this is to provide an increase in the regular minimum annuity (where there is a "current connection with the railroad industry") through increasing the computation factor of $4.14, in the first alternative formula, by slightly less than 15 percent thereof to $4.76, and the computation factor of $69, in the second alternative formula, by exactly 15 percent thereof to $79.35. No change is made, however, in the other alternative formula, of the "monthly compensation", so that annuities computed under this formula would not be increased at all. Also, no amendment is proposed regarding the minimum provision requiring the use of the social-security formulas so that benefits to which this provision applies may not be increased by the full 15 percent or, in some cases, at all.

Section 2 (a) of the reported bill relates to the residual lump-sum guaranty which assures to all employees either that they and their wives will draw in benefits while living, or that there will be paid to surviving beneficiaries, an amount at least equal to the employee's retirement taxes, together with an allowance in lieu of interest. This amount is computed at 4 percent of creditable earnings before 1947 (when taxes were paid at the rate of 3½ percent or less), and 7 percent of the earnings after 1946 (when taxes were paid at the rate of 6¼ percent or less). Section 2 (a) provides for computing this amount at the rate of 8 percent of the compensation after June 1956 (on which it is proposed that taxes will be paid at the rate of 7¼ percent).

Section 2 (b) of the reported bill increases the maximum and minimum survivor annuity totals (computed in accordance with the regular formulas provided by the Railroad Retirement Act, but not under the minimum provision requiring the use of social-security formulas) by exactly 15 percent.

Section 2 (c) of the reported bill amends section 5 (l) (10) of the Railroad Retirement Act so as generally to increase the "basic amount" (which is the factor for computing survivor annuities) by 15 percent, thereby increasing survivor annuities to the same extent.

Section 3 of the reported bill provides a flat increase of 15 percent in pensions (i. e., those payable to retired employees who were taken over from the railroad voluntary pension systems), in joint and survivor annuities (i. e. those under the former option provisions) awarded before the effective date of the bill, and in annuities awarded under the Railroad Retirement Act of 1935. The preceding sections of the bill do not apply to these classes of benefits.

Section 4 (a), 4 (b) (1) and 4 (b) (2) of the reported bill amend the Railroad Retirement Tax Act provisions of the Internal Revenue Code of 1954 so as to provide an increase of 1 percent in the rate of both the employee and employer taxes, and an increase of 2 percent in the rate of employee representative taxes, assessed for the support of the railroad retirement system.

Section 5 of the reported bill fixes the dates on which the changes made in other sections become effective. Section 5 (a) makes the increases in annuities (whether employee, spouse, or survivor) effective with respect to all accruals after June 1956 irrespective of whether the annuities have been theretofore or thereafter awarded. The increase in lump-sum survivor benefits is made effective with respect to deaths occurring after June 1956. The increase in pension payments would be reflected in the August 1 payment to correspond with the date on which the first increased annuity payments would be made.

Section 5 (b) makes the amendments to the Railroad Retirement Tax Act effective July 1, 1956, and specifies that the new tax rates shall apply only to taxes on compensation paid after June 30, 1956, for services rendered after that date.

Changes in Existing Law

In compliance with clause 3 of rule XIII of the Rules of the House of Representatives, changes in existing made by the bill, as introduced, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italics, existing law in which no change is proposed is shown in roman):

RAILROAD RETIREMENT ACT OF 1937

* * * * * * *

COMPUTATION OF ANNUITIES

Sec. 3. (a) The annuity shall be computed by multiplying an individuals's "years of service" by the following percentages of his "monthly compensation": [2.76] *3.18* per centum of the first $50; [2.07] *2.38* per centum of the next $100; and [1.38] *1.59* per centum of the next $200.

* * * * * * *

(e) In the case of an individual having a current connection with the railroad industry, the minimum annuity payable shall, before any reduction pursuant to section 2 (a) 3 [or the last paragraph of section 3 (b)], be whichever of the following is the least: (1) [$4.14] *$4.76* multiplied by the number of his years of service; or (2) [$69] *$79.35*; or (3) his monthly compensation: *Provided, however*, That if for any entire month in which an annuity accrues and is payable under this Act the annuity to which an employee is entitled under this Act (or would have been entitled except for a reduction pursuant to section 2 (a) 3 or a joint and survivor election), together with his or her spouse's annuity, if any, or the total of survivor annuities under this Act deriving from the same employee, is less than the amount, or the additional amount, which would have been payable to all persons for such month under the Social Security Act (deeming completely and partially insured individuals to be fully and currently insured, respectively, individuals entitled to insurance annuities under subsections (a) and (d) of section 5 to have attained age sixty-five, and individuals entitled to insurance annuities under subsection (c) of section 5 on the basis of disability to be less than eighteen years of age, and disregarding any possible deductions under subsections (f) and (g) (2) of section 203 of the Social Security Act) if such employee's service as an employee after December 31, 1936, were included in the term "employment" as defined in that Act and quarters of coverage were determined in accordance with section 5 (1) (4) of this Act, such annuity or annuities, shall be increased proportionately to a total of such amount or such additional amount.

* * * * * * *

ANNUITIES AND LUMP SUMS FOR SURVIVORS

SEC. 5. (a) * * *

* * * * * * *

(f) Lump-sum Payment.—(1) * * *

(2) Whenever it shall appear, with respect to the death of an employee on or after January 1, 1947, that no benefits, or no further benefits, other than benefits payable to a widow, widower, or parent upon attaining age sixty at a future date, will be payable under this section or, pursuant to subsection (k) of this section, upon attaining age sixty-five at a future date, will be payable under section 202 of the Social Security Act, as amended, there shall be paid to such person or persons as the deceased employee may have designated by a writing filed with the Board prior to his or her death, or if there be no designation, to the person or persons in the order provided in paragraph (1) of this subsection or, in the absence of such person or persons, to his or her estate, a lump sum in an amount equal to the sum of 4 percentum of his or her compensation paid after December 31, 1936, and prior to January 1, 1947, [and 7 percentum of his or her compensation after December 31, 1946 (exclusive in both cases of compensation in excess of $300 for any month before July 1, 1954, and in the latter case in excess of $350 for any month after June 30, 1954)] *7 per centum of his or her compensation paid after December 31, 1946, and prior to July 1, 1956, and 8 per centum of his or her compensation paid after June 30, 1956 (exclusive of compensation in excess of $300 for any month before July 1, 1954, and in excess of $350 for any month after*

June 30, 1954), minus the sum of all benefits paid to him, or her, and to others deriving from him or her, during his or her life, or to others by reason of his or her death, under this Act, and pursuant to subsection (k) of this section, under section 202 of the Social Security Act, as amended: *Provided, however*, That if the employee is survived by a widow, widower, or parent who may upon attaining age sixty be entitled to further benefits under this section, or pursuant to subsection (k) of this section, upon attaining age sixty-five be entitled to further benefits under section 202 of the Social Security Act, as amended, such lump sum shall not be paid unless such widow, widower, or parent makes and files with the Board an irrevocable election, in such form as the Board may prescribe, to have such lump sum paid in lieu of all benefits to which such widow, widower, or parent might otherwise become entitled under this section or, pursuant to subsection (k) of this section, under section 202 of the Social Security Act, as amended. * * *

* * * * * * *

(h) Maximum and Minimum Annuity Totals.—Whenever according to the provisions of this section as to annuities, payable for a month with respect to the death of an employee, the total of annuities is more than [$30] *$34.50* and exceeds either (a) [$160] *$184*, or (b) an amount equal to two and two-thirds times such employee's basic amount, whichever of such amounts is the lesser, such total of annuities shall, prior to any deductions under subsection (i), be reduced to such lesser amount or to [$30] *$34.50*, whichever is greater. Whenever such total of annuities is less than [$14] *$16.10*, such total shall, prior to any deductions under subsection (i), be increased to [$14] *$16.10*.

* * * * * * *

(l) Definitions.—For the purposes of this section the term "employee" includes an individual who will have been an "employee", and—

(1) * * *

* * * * * * *

(10) The term "basic amount" shall mean—

(i) for an employee who will have been partially insured, or completely insured solely by virtue of paragraph (7) (i) or (7) (ii) or both: the sum of (A) [40] *46* per centum of his average monthly remuneration, up to and including $75; plus (B) [10] *11½* per centum of such average monthly remuneration exceeding $75 and up to and including $350, plus (C) 1 per centum of the sum of (A) plus (B) multiplied by the number of years after 1936 in each of which the compensation, wages, or both, paid to him will have been equal to $200 or more; if the basic amount, thus computed, is less than [$14] *$16.10* it shall be increased to [$14] *$16.10*;

(ii) for an employee who will have been completely insured solely by virtue of paragraph (7) (iii): the sum of [40] *46* per centum of his monthly compensation if an annuity will have been payable to him, or, if a pension will have been payable to him, [40] *46* per centum of the average monthly earnings on which such pension was computed, up to and including $75, plus [10] *11½* per centum of such compensation or earnings exceeding $75 and up to and including $300. If the average monthly earnings on which a pension payable to him was computed are not ascertainable from the records in the possession of the Board, the amount computed under this subdivision shall be [$33.33] *$38.33*, except that if the pension payable to him was less than [$25] *$28.75*, such amount shall be four-thirds of the amount of the pension or [$13.33] *$15.33*, whichever is greater. The term "monthly compensation" shall, for the purposes of this subdivision, mean the monthly compensation used in computing the annuity;

(iii) for an employee who will have been completely insured under paragraph (7) (iii) and either (7) (i) or (7) (ii): the higher of the two amounts computed in accordance with subdivisions (i) and (ii).

RAILROAD RETIREMENT TAX ACT

Subchapter A—Tax on Employees

SEC. 3201. RATE OF TAX.

In addition to other taxes, there is hereby imposed on the income of every employee a tax equal to [6¼] *7¼* percent of so much of the compensation paid to such employee after [December 31, 1954] *June 30, 1956*, for services rendered by him after such date as is not in excess of $350 for any calendar month. *Notwithstanding any other provision of law, the amount of the tax imposed on the income of any individual by this section shall be excluded from such individual's gross income for purposes of chapter 1 and from such individual's "wages" for purposes of chapter 24.*

SEC. 3202. DEDUCTION OF TAX FROM COMPENSATION

(a) REQUIREMENT.—The tax imposed by section 3201 shall be collected by the employer of the taxpayer by deducting the amount of the tax from the compensation of the employee as and when paid. If an employee is paid compensation after [December 31, 1954] *June 30, 1956*, by more than one employer for services rendered during any calendar month after [1954] *June 1956* and the aggregate of such compensation is in excess of $350, the tax to be deducted by each employer other than a subordinate unit of a national railway-labor-organization employer from the compensation paid by him to the employee with respect to such month shall be that proportion of the tax with respect to such compensation paid by all such employers which the compensation paid by him after [December 31, 1954] *June 30, 1956*, to the employee for services rendered during such month bears to the total compensation paid by all such employers after [December 31, 1954] *June 30, 1956*, to such employee for services rendered during such month; and in the event that the compensation so paid by such employers to the employee for services rendered during such month is less than $350, each subordinate unit of a national railway-labor-organization employer shall deduct such proportion of any additional tax as the compensation paid by such employer after [December 31, 1954] *June 30, 1956*, to such employee for services rendered during such month bears to the total compensation paid by all such employers after [December 31, 1954] *June 30, 1956*, to such employee for services rendered during such month.

(b) Indemnification of Employer.—Every employer required under subsection (a) to deduct the tax shall be made liable for the payment of such tax and shall not be liable to any person for the amount of any such payment.

Subchapter B—Tax on Employee Representatives

SEC. 3211. RATE OF TAX.

In addition to other taxes, there is hereby imposed on the income of each employee representative a tax equal to [12½] *14½* percent of so much of the compensation, paid to such employee representative after [December 31, 1954] *June 30, 1956*, for services rendered by him after such date as is not in excess of $350 for any calendar month. *Notwithstanding any other provision of law, the amount of the tax imposed on the income of any individual by this section shall be excluded from such individual's gross income for purposes of chapter 1 and from such individual's "wages" for purposes of chapter 24.*

* * * * * * *

Subchapter C—Tax on Employers

SEC. 3221. RATE OF TAX.

In addition to other taxes, there is hereby imposed on every employer an excise tax, with respect to having individuals in his employ, equal to [6¼] *7¼* percent of so much of the compensation paid by such employer after [December 31, 1954] *June 30, 1956*, for services rendered to him after [December 31, 1954] *June 30, 1956*, as is, with respect to any employee for any calendar month, not in excess of $350; except that if an employee is paid compensation after [December 31, 1954] *June 30, 1956*, by more than one employer for services rendered during any calendar month after [1954] *June 1956* the tax imposed by this section shall apply to not more than $350 of the aggregate compensation paid to such employee by all such employers after [December 31, 1954] *June 30, 1956*, for services rendered during such month, and each employer other than a subordinate unit of a national railway-labor-organization employer shall be liable for that proportion of the tax with respect to such compensation paid by all such employers which the compensation paid by him after [December 31, 1954] *June 30, 1956*, to the employee for services rendered during such month bears to the total compensation paid by all such employers after [December 31, 1954] *June 30, 1956*, to such employee for services rendered during such month; and in the event that the compensation so paid by such employers to the employee for services rendered during such month is less than $350, each subordinate unit of a national railway-labor-organization employer shall be liable for such proportion of any additional tax as the compensation paid by such employer after [December 31, 1954] *June 30, 1956*, to such employee for services rendered during such month bears to the total compensation paid by all such employers after [December 31, 1954] *June 30, 1956*, to such employee for services rendered during such month.

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APPENDIX

UNITED STATES OF AMERICA,
RAILROAD RETIREMENT BOARD,
Chicago, Ill., February 28, 1956.

Hon. J. PERCY PRIEST,
Chairman, Committee on Interstate and Foreign Commerce,
House Office Building, Washington 25, D. C.

DEAR MR. PRIEST: This is a report on H. R. 9065, 9066, 9068, and other identical bills which were introduced in the House of Representatives and which were referred to your committee for consideration.

These bills would amend the Railroad Retirement Act and the Railroad Retirement Tax Act in the following respects:

1. Employee retirement annuities computed under the Railroad Retirement Act formulas would be increased by slightly more than 15 percent. It is estimated that the average increase in the formula for retired employees on the benefit rolls would be about 15.10 percent and for future retirements, about 15.12 percent. The bills would not increase the amount of the social-security minimum guaranty nor would they change that part of section 3 (e) which provides that the annuity computed under the nonsocial-security minimum formula shall not exceed the employee's monthly compensation. Because of these limitations, certain annuities subject to the minimum provisions of section 3 (e), including practically all computed under the social-security formulas, would be either not increased at all or increased by less than 15 percent.

2. Spouses' annuities would continue to equal one-half of the employee's annuity subject to the present maximum of $54.30 a month. The retention of the $54.30 maximum would have the effect of not increasing large numbers of spouses' annuities now payable at this amount and increasing by less than 15 percent annuities which under present law are somewhat in excess of $47 but under $54.30. Certain reduced spouses' annuities would also not be increased to the full extent even though their amount under present law is under $47 a month.

3. The basic amount, which is the unit for computing survivor insurance benefits under the regular formulas, would be increased by exactly 15 percent. A similar 15-percent increase would be applicable to the Railroad Retirement Act maximum and minimum amounts related to survivor insurance benefits. However, the amount of the social-security minimum guaranty which applies to such survivor benefits would remain unchanged. The effect of this limitation would be that survivor insurance benefits computed in accordance with the social security rather than railroad retirement formulas would either be not increased at all or would be increased by less than 15 percent. At present, the great majority of monthly survivor insurance benefits are computed in accordance with the social-security minimum formulas so that large numbers of such benefits would not be increased as a result of the enactment of the bills. In cases where a widow's or parent's annuity is payable under the Railroad Retirement Act

simultaneously with an old-age social-security benefit received by the same individual, the 15-percent increase would apply in practically all cases, since the social-security minimum seldom applies in dual benefit cases.

The insurance lump sum would be increased in all cases by exactly 15 percent since the social-security minimum guaranty is not applicable to this type of benefit.

4. Pensions, 1935 act annuities, and joint-and-survivor-option annuities would be increased by exactly 15 percent. The beneficiaries falling within these classifications constitute small groups to which the social-security minimum provisions are very unlikely to apply.

5. The residual lump-sum benefit would be increased so as to give recognition to the increase in the taxes levied on the employees. Under present law, the residual benefit formula calls for 4 percent of the employee's total creditable compensation from 1937 through 1946, and for 7 percent of compensation earned thereafter. The bills would introduce an 8-percent factor effective July 1, 1956.

6. The changes made by the bills would apply to all annuities payable with respect to months after June 1956, to pensions due in calendar months after July 1956, and to insurance lump sums payable with respect to deaths occurring after June 1956.

7. The bills provide for additional revenues to the railroad retirement system by increasing the rate of tax on employees and employers by 1 percent each. Thus, effective July 1, 1956, the combined tax rate would be 14½ percent of earnings up to $350 a month per employee instead of the present rate of 12½ percent. The tax rate on employee representatives would be increased to 14½ percent. The higher rate of tax would apply only to compensation earned after the effective date.

8. The railroad retirement taxes paid by employees would be exempt from Federal income tax effective July 1, 1956. This would be accomplished by means of specifically excluding such retirement taxes from the employee's taxable income. In the general case, the effect of this income-tax exemption would be to lower the effective employee's railroad retirement tax to somewhat less than 6 percent of his taxable compensation. This provision does not alter either the amounts of benefits paid under the Railroad Retirement Act or the income which would be received by the railroad retirement account. In consequence, the tax exemption provision would have no effect on the financial condition of the railroad retirement system.

ACTUARIAL COST ESTIMATES (SUPPLIED BY THE CHIEF ACTUARY)

The amendments would involve an estimated additional cost of 2.30 percent of payroll derived as follows:

Item	*Additional cost (percent of payroll)*
Employee annuities and pensions	1. 65
Spouses' annuities	. 06
Aged widows' annuities	. 24
Other monthly survivor benefits	. 01
Insurance lump sums	. 03
Increase in residual benefit formula	. 04
Allowance for accelerated retirement	. 33
Savings on residual payments	—. 06
Total	2. 30

The allowance for accelerated retirement included in the additional cost is based on the assumption that the availability of higher retirement benefits would offer a moderate incentive for earlier retirement. The 0.33 percent of payroll is a round figure based on judgment as to what the effect of the increases in benefits might be. It constitutes slightly more than 2 percent of the costs of employee and spouses' annuities (14.30 percent of payroll) which would otherwise exist after allowing for the liberalizations in the annuity formulas.

According to the sixth valuation as modified by this cost estimate, the overall net level cost for the system would come to 16.43 percent of payroll. By comparison, the combined tax rate on employers and employees would be 14.50 percent, so that the actuarial deficiency would be 1.93 percent of payroll, or about $102 million a year on a level basis.

IMMEDIATE EFFECT

Employee annuities

Of the 320,000 employee annuities, it is estimated that 285,000 would receive the full increase and 15,000 an increase of less than 15 percent, while 20,000 would receive no increase. The 15,000 which would be increased by less than 15 percent consist of 7,000 which are now social security minimum guaranty cases and to which the new regular retirement benefit formula would begin to apply, and 8,000 other cases now minimums where the amount of increase would be limited to the amount of the average monthly compensation. To illustrate: Consider the case where the annuity under the regular railroad retirement benefit formula is $80, but under the guaranty provision it comes to $85 per month. The Board currently pays the $85. Under the new regular railroad retirement benefit formula the $80 figure would be raised to $92. Hence, the actual annuity payable would be increased from $85 to $92, an increase of about 8 percent. Consider further the case where the Board is paying a $69 minimum annuity to an employee whose average monthly compensation is $76. The increase in this case would be from $69 to $76, or about 10 percent.

The 20,000 annuities which would not be increased include 15,000 guaranty cases and 5,000 cases in which the annuity is already equal to the average monthly compensation. The overall percent increase for the 320,000 annuities is estimated at 14.2 percent, while for the 300,000 annuities affected, it would be 14.9 percent.

Pensioners

The 2,500 pensioners on the rolls July 1, 1956, would receive a flat 15-percent increase in their pensions.

Spouses

The 115,000 spouses on the rolls July 1, 1956, include 48,000 to be increased—31,000 by 15 percent and 17,000 by less than 15 percent—and 67,000 not to be increased. The great majority of the 67,000 not to be increased are wives who are already receiving the maximum of $54.30 per month.

Survivor annuities

There will be approximately 213,000 individual survivor insurance beneficiaries on the rolls July 1, 1956. These may be split into 3 broad groups: roughly, 152,000 who are under the guaranty provision; 58,000 whose benefits are based on the regular formulas; and 3,000 cases in which a widow is receiving the same amount she received as a wife.

It is estimated that some 58,000 survivors would receive the full 15-percent increase under the railroad survivor benefit formula. About 13,000 survivors would receive less than the 15-percent increase, while the remaining 142,000 would receive no increase. An example of a case in which a less than 15-percent increase would result is that of an aged widow to whom the Board is paying $45 per month under the guaranty provision. Assume a basic amount under the present law of $40, which will be increased to $46 under the proposed amendments. Her annuity will be increased from $45 to $46, or a little more than 2 percent. Now if in this case the widow is receiving more than $46 under the guaranty provision, her benefit will remain the same.

Tabular summary

The two attached tables illustrate the effect of the proposed amendments to increase the various railroad retirement benefit formulas.

Since becoming Chairman of the Board, I have consistently favored increased benefits under the Railroad Retirement and Railroad Unemployment Insurance Acts whenever there was adequate financing for such increases so as not to endanger the solvency of the trust funds. This is a point of view that has long been advocated by the Board, congressional committees, and other interested parties.

Since the proposed increase in the tax rate from 12½ to 14½ percent will furnish nearly all of the necessary revenue to provide for the increased benefits, I do not consider the comparatively small deficiency significant enough to threaten the stability of the railroad retirement system. Therefore, I recommend favorable consideration of sections 1, 2, 3, 4, and 6 of H. R. 9065 and of the other identical bills.

I wish to make it clear, however, that I am not expressing any views with respect to the provisions of section 5 of the bill, as such provisions are chiefly the concern of other departments of the Government. Section 5 provides as follows:

"Sections 3201 and 3211 of the Railroad Retirement Tax Act are each further amended by adding at the end thereof the following new sentence: 'Notwithstanding any other provision of law, the amount of the tax imposed on the income of any individual by this section shall be excluded from such individual's gross income for purposes of chapter 1 and from such individual's "wages" for purposes of chapter 24.' "

Sincerely yours,

RAYMOND J. KELLEY, *Chairman.*

TABLE 1.—*Estimated numbers of monthly beneficiaries of each type on the Board's current payment rolls July 1, 1956, who would be affected or not affected by proposed 15 percent increase in railroad benefit formulas*

Type of benefit	On current payment rolls			Estimated number increased			Estimated number not increased			
	Total	Benefits computed under— Railroad formula	Benefits computed under— Social Security formula	Total	By 15 percent	By less than 15 percent	Total	Monthly computed minimum cases	Social Security formula cases	Others
Total	654,500	473,250	181,250	424,900	380,250	44,650	229,600	7,000	162,600	60,000
Retirement	320,000	298,000	22,000	300,000	285,000	[1] 15,000	20,000	5,000	15,000	------
Pensioners	2,500	2,500	------	2,500	2,500	------	------	------	------	------
Spouses	115,000	108,000	7,000	48,000	31,000	[2] 17,000	67,000	2,000	5,000	[3] 60,000
Aged widows	155,000	57,000	98,000	63,000	54,000	[4] 9,000	92,000	------	92,000	------
Widowed mothers	12,000	700	11,300	1,300	700	[5] 600	10,700	------	10,700	------
Children	45,000	3,000	42,000	6,000	3,000	[5] 3,000	39,000	------	39,000	------
Parents	1,000	50	950	100	50	[5] 50	900	------	900	------
Survivor (option)	4,000	4,000	------	4,000	4,000	------	------	------	------	------

[1] Includes 7,000 guaranty cases changed to railroad formula, 8,000 minimums ($69, 4.14 times years of service, guaranty) changed to monthly compensation minimums.
[2] Includes 15,000 unreduced spouse benefits over $47.22 but less than $54.30 before increase, and 2,000 guaranty cases changed to the railroad formula.
[3] Normal spouse annuity already equal to $54.30.
[4] Includes 6,000 guaranty cases and 3,000 spouse minimums changed to the regular railroad formula.
[5] Guaranty cases changed to the railroad formula.

NOTE.—No provision made for application of the disability freeze.

TABLE 2.—*Estimated numbers of monthly beneficiaries of each type on the Board's current payment rolls July 1, 1956: Number and percent affected and average monthly benefits before and after proposed 15 percent increase in railroad benefit formulas*

Type of benefit	Total on current payment rolls				Total on rolls receiving increase				
	Number	Average benefit Before increase	Average benefit After increase	Percent change	Number	Percent of total	Average benefit Before increase	Average benefit After increase	Percent change
Total	654,500	------	------	------	424,900	65	------	------	------
Retirement	320,000	$102.00	$116.50	14.2	300,000	94	$104.30	$119.80	14.9
Pensioners	2,500	78.00	89.70	15.0	2,500	100	78.00	89.70	15.0
Spouses	115,000	46.80	48.70	4.1	48,000	42	39.70	44.20	11.3
Aged widows	155,000	50.80	53.00	4.3	63,000	41	40.80	46.30	13.5
Other survivor insurance	58,000	46.00	46.50	1.1	7,400	13	35.50	38.70	9.0
Survivor (option)	4,000	46.00	52.90	15.0	4,000	100	46.00	52.90	15.0

UNITED STATES OF AMERICA,
RAILROAD RETIREMENT BOARD,
Chicago, Ill., February 28, 1956.

Hon. J. PERCY PRIEST,
Chairman, Committee on Interstate and Foreign Commerce,
House Office Building, Washington 25, D. C.

DEAR MR. PRIEST: The three members of the Railroad Retirement Board have divergent views with respect to H. R. 9065, 9066, 9068 and all succeeding identical bills upon which you have requested reports. This is my separate report on these bills, as the labor member of the Board, whose statutory duty it is to provide representation on the Board satisfactory to the largest number of railroad employees. I favor the enactment of the bills for the following reasons:

(1) The basic purpose of the bills is to improve, at least to a degree, the relationship between present day wages and benefits presently provided in the Railroad Retirement Act.

(2) The bills provide an additional 2 percent of taxable payroll which is sufficient revenue to meet the cost of the proposed increased benefits. The additional cost is estimated to be 2.30 percent of taxable payroll which includes an arbitrary allowance of 0.33 percent of taxable payroll, ascribed to possible but, in my considered judgment, highly improbable accelerated retirement. Except for the inclusion of that item, which in my judgment is unwarranted, the increased cost would be no more than 1.97 percent of taxable payroll.

(3) The bills would eliminate from gross income for Federal income tax and tax withholding purposes the amounts paid by employees and employee representatives in taxes for railroad retirement purposes. Railroad employees pay now what is, in effect, a tax upon a tax. This has been recognized as an unjust tax by both Canada and Great Britain and eliminated as such. In the light of the tax position now enjoyed by railroad companies in this respect, I deem it appropriate to accord railroad employees the same consideration.

Sincerely yours,

HORACE W. HARPER.

UNITED STATES OF AMERICA,
RAILROAD RETIREMENT BOARD,
Chicago, Ill., February 29, 1956.

Hon. J. PERCY PRIEST,
Chairman, Committee on Interstate and Foreign Commerce,
House of Representatives,
House Office Building, Washington, D. C.

DEAR MR. PRIEST: Am grateful for the opportunity you have accorded us to express our views on H. R. 9065, 9066, 9068, and identical bills.

The preservation of the Railroad Retirement System on a sound financial basis to adequately meet the obligations of the future is, to me, a sacred trust. I know, too, that such is the sincere desire of railroad management whom I have the honor and privilege of representing.

Section 15 (d) of the Railroad Retirement Act of 1937 requires the Railroad Retirement Board, at intervals of not longer than 3 years to make an estimate of the liabilities created by that act and the act of 1935 and to include such estimate in its annual report.

Upon completion of the sixth actuarial valuation, which includes the laws in effect, December 31, 1955, the Board's actuary placed the net level cost of 14.13 percent of payroll, indicating an actuarial deficiency (when compared with 12.5 percent contributions) of 1.63 percent, which is equivalent to $86,400,000 a year.

In its conclusions, the actuarial report warns us that:

"It is believed that no overly conservative assumptions have been introduced in this valuation so that the likelihood of an understatement of costs appears to be greater than that of an overstatement."

Section 15 (c) of the Railroad Retirement Act of 1937 provides for the appointment of an Actuarial Advisory Committee to "examine the actuarial reports and estimates made by the Board and have authority to recommend to the Board such changes in actuarial methods as it may deem necessary."

In accordance with these requirements, the report of the sixth triennial valuation of the railroad retirement account, prepared by our Chief Actuary, was submitted to that Committee which is composed of outstanding leaders in the actuarial field: Mr. Walter E. Wilcox for the United States Treasury; Mr. George B. Buck for the employees, and Mr. Robert D. Holran for the employers.

I quote from the report of that Committee:

"The assumptions used are believed to be appropriate although they probably tend to understate rather than to overstate the contributions needed.

"For the first time, since the establishment of the Railroad Retirement System, the obligations on account of new members have exceeded the scheduled taxes payable to the Railroad Retirement System.

"The actuarial valuation shows that a rate of 13.99 percent plus an additional 0.14 percent for administrative expenses, or a total of 14.13 percent of the entire future taxable compensation is needed in order to cover the obligations of the Railroad Retirement System under the law.

"The difference between the 14.13 percent needed to finance the liabilities of the Railroad Retirement Act and the 12.5 percent currently collected is $86,390,000 a year."

The report of that group of distinguished gentlemen concludes:

"In the opinion of this Committee, the valuation of the benefits, payable under the Railroad Retirement Act, the obligations to cover tax credits to the social-security system and of the prospective credits from the social-security system to the railroad retirement system has been completed by Mr. Niessen (Chief Actuary, Railroad Retirement Board) in accordance with methods generally employed by actuaries in valuations of this character and the results are reliable."

Naturally, these findings are of serious concern to all of us and for the first time in its history, I believe, the three members of the Board signed, on December 22, 1955 a joint report manifesting this concern and recommending careful study by all interested of means for the ultimate elimination of the actuarial deficiency of $86,390,000 per year estimated by our Chief Actuary and confirmed by the Actuarial Committee under the requirements of the act.

Subsequently, there have been introduced H. R. 9065, 9066, 9068, and identical bills, now before you gentlemen, which, in effect, propose an increase of 15 percent in most of the benefit payments under the Railroad Retirement Act, presumably to be protected by an additional contribution of 1 percent on taxable earnings on employees and employers alike.

Our Chief Actuary estimates that even the proposed additional tax, aggregating 2 percent, falls short of meeting the augmented costs, and, indeed, would actually increase the present annual deficiency of $86 million to $102 million per year.

I, therefore, respectfully recommend your very earnest consideration of the present deficiency in preventing any further peril to the account which would certainly result from the enactment of any increased benefits that cannot be afforded on basis of sound actuarial studies and valuations.

With all good wishes, I remain,

Sincerely,

THOMAS M. HEALY.

THE SECRETARY OF THE TREASURY,
Washington, March 6, 1956.

Hon. J. PERCY PRIEST,
Chairman, Committee on Interstate and Foreign Commerce,
House of Representatives, Washington, D. C.

MY DEAR MR. CHAIRMAN: This is in reference to a request for the Treasury Department's views on H. R. 9065 and other identical bills to amend the Railroad Retirement Act of 1937 to provide increases in benefits and for other purposes.

The Department is primarily interested in section 5 of these bills which excludes employees' contributions to the railroad retirement program from both withholding tax and from taxable income. Such exclusions are not permitted under existing law. After the increase in the contribution rate provided by the bills, such exclusions would amount of 7¼ percent of the covered employee's wages.

Though the bills increase both employee and employer contributions by 1 percent of covered wages to pay for the higher benefits, employees would actually pay a smaller net amount than at present. The income-tax reductions resulting from the exclusion would be larger than the increase in their contributions. The bill thus would shift the employee's share of the cost of the proposed increase in benefits to the Federal Government. It would also shift to the Federal Government part of the cost of the existing program.

These exclusions would have far-reaching implications for the income-tax system. Employee contributions to the railroad retirement program are a form of savings for retirement and other contingencies. If savings of railroad employees are excluded from taxable income, other groups could be expected to demand comparable exclusions for other types of savings for retirement, including contributions to employer pension plans, the OASI program, and private annuities.

The fact that railroad retirement benefits are already exempt from tax adds to the problem. If, in addition to the present exemption of benefits, employees' contributions were excluded, no tax would be paid on the income represented by such contributions at any time.

Such exclusions would cause very substantial losses in revenue. the exclusion of railroad retirement contributions alone would involve an annual revenue loss estimated at $70 million. If a similar exclusion were given to social-security contributions, the cost would be increased by another 600 to 700 million dollars annually.

In view of these considerations, the Treasury Department strongly opposes the enactment of any bill which contains an income-tax exclusion for employee contributions under the railroad retirement program.

The Director, Bureau of the Budget, has advised the Treasury Department that there is no objection to the presentation of this report.

Sincerely yours,

G. M. HUMPHREY,
Secretary of the Treasury.

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE,
Washington, April 11, 1956.

Hon. J. PERCY PRIEST,
Chairman, Committee on Interstate and Foreign Commerce,
House of Representatives, Washington, D. C.

DEAR MR. CHAIRMAN: This letter is in reponse to your request for a report on H. R. 9065 and on a number of identical bills (listed in the enclosure) to amend the Railroad Retirement Act of 1937 to provide increases in benefits, and for other purposes.

The provisions of these bills and their somewhat complicated effects on the various types of benefits under the Railroad Retirement Act are described in detail in the letter of the Chairman of the Railroad Retirement Board to your committee, dated February 28, 1956. Whatever may be said as to the desirability of a benefit increase per se, we believe that enactment of this proposed legislation would be unsound in view of the manner in which the increase of benefits would be financed—to the extent that it would be financed by these bills—and in view of the present actuarial deficiency of the railroad retirement account.

While the bills would increase the rate of employer and employee contributions to the system (in the form of taxes under the Railroad Retirement Tax Act) from 6¼ percent to 7¼ percent each, an additional provision would exclude the amount of such employee contributions (including the 1 percent increase) from taxable income under the income-tax law. We understand that in most cases the resulting reduction in the employee's income tax would, at present income-tax rates, be greater than the increase in his contribution.

Exclusion of the employee contribution from gross income for purposes of income tax would constitute preferential treatment for employees covered under this system, as compared with employees covered by the old-age and survivors insurance system, the civil-service retirement system, and other public and private retirement and survivor benefit plans, who do not enjoy a like advantage. Apart from the question of general tax policy involved—on which we defer to the Treasury Department—such preferential treatment cannot, we believe, be justified. The proposed exclusion of the employee contributions from gross income would mean, in effect, that the employee's share of the increase in the contribution rate would be borne by all individuals paying income tax, rather than by employees covered under the railroad retirement system.

The railroad retirement system has shown an actuarial deficit for some time and we understand that the latest actuarial valuation shows the current actuarial level-cost deficit to amount to 1.63 percent of taxable payroll, or about $86 million per year. This raises questions as to the future solvency of the system. We would accordingly question an increase in benefits until adjustments have been made that bring the system into actuarial balance. The proposed contribution rate of 7.25 percent each for the employer and employee would overcome the present deficiency if it were not coupled with the benefit increases proposed in the bill. But, as shown by the report of the Chairman of the Railroad Retirement Board, the net effect of the contribution and benefit increases on the finances of the system would be to increase the actuarial deficiency to 1.93 percent of payroll or $102 million a year on a level basis, since the proposed increase in contribution rates falls short (by about 0.3 percent of payroll) of fully meeting the proposed increases in benefits.

For these reasons we recommend against enactment of the proposed legislation.

We are advised by the Bureau of the Budget that enactment of the measure would not be in accord with the program of the President.

Sincerely yours,

HEROLD C. HUNT,
Acting Secretary.

EXECUTIVE OFFICE OF THE PRESIDENT,
BUREAU OF THE BUDGET,
Washington 25, D. C., March 2, 1956.

Hon. J. PERCY PRIEST,
Chairman, Committee on Interstate and Foreign Commerce,
House of Representatives, Washington 25, D. C.

MY DEAR MR. CHAIRMAN: This is in reply to your request for a report on H. R. 9065, a bill to amend the Railroad Retirement Act of 1937 to provide increases in benefits, and for other purposes.

In general, the bill would increase retirement benefits and lump sum payments by 15 percent. Spouses and survivors benefits would also be raised in many instances, the precise extent of the increase depending on certain interrelations with social security. These increased benefits are estimated to add about $120 million a year to the cost of the program. The bill proposes an increase of 1 percent each in the employer and employee taxes, thus raising the already heavy combined tax rate to 14½ percent on earnings up to $350 a month.

It also contains a unique provision to exclude railroad employee retirement taxes from income subject to the Federal income tax. In the case of the great majority who are subject to income tax, this would more than offset the effect of the proposed 1 percent increase on the take-home pay of employees, and the value of the exclusion would be greatest for employees, in the higher pay brackets. It would mean that the general income-tax payer would pay nearly all the real cost of the ostensible increase in the employees' tax. The Treasury Department has indicated in a separate report to your committee that it opposes the tax provision of the bill.

The Bureau of the Budget is seriously concerned over the proposed tax exemption, which runs counter to a basic principle of income taxation; namely, that exemptions should be universally applicable to all wage earners rather than a select group. Moreover, such a provision would inevitably lead to irresistible appeals for similar tax relief for persons covered by OASI and other programs, with serious adverse effects on Federal revenues.

The railroad retirement program is already operating at an actuarial deficiency of $86 million a year. This situation occasioned a warning in the 1955 actuarial evaluation that "an increase in the revenues is needed if the system is to be maintained on a sound reserve basis" and "the time when disbursements will exceed taxes * * * is imminent." The net effect of H. R. 9065 would be to increase this operating deficiency to about $102 million a year.

The present actuarial deficiency of the system has also been a matter of grave concern to the Bureau of the Budget. This trust fund is in actuarial difficulties despite favorable interest rates and other credits from the Federal Government which are not extended to other Government retirement systems. H. R. 9065 does nothing to relieve the present deficiency but, instead, would increase it. Specifically, it would increase costs by an estimated 2.3 percent of payroll, compared to a 2 percent increase in taxes. Impairment of the soundness of the fund jeopardizes employee benefits.

In view of the foregoing considerations you are advised that enactment of H. R. 9065 would not be in accord with the program of the President.

Sincerely yours,

PERCY RAPPAPORT,
Assistant Director.

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